BANCO CENTRAL DO BRASIL

Minutes of the 172nd Meeting of the Monetary Policy Committee (Copom)

Date: January 15th, 2013, from 4:25PM to 8:10PM, and January 16th, from 5:17PM to 8:15PM

Place: BCB Headquarters meeting rooms – 8th floor on January 15th and 20th floor on January 16th – Brasília – DF

In attendance:
Members of the Committee
Alexandre Antonio Tombini – Governor
Aldo Luiz Mendes
Altamir Lopes
Anthero de Moraes Meirelles
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva
Luiz Edson Feltrim
Sidnei Corrêa Marques

Department Heads (present on January 15th)
Eduardo José Araújo Lima - Research Department (also present on January 16th)
Flávio Túlio Vilela - Department of Banking Operations and Payments System
Geraldo Pereira Júnior - International Affairs Department
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on January 15th)
Gustavo Paul Kurrle – Press Officer
Otávio Ribeiro Damaso – Chief of Governor ‘s Staff

The members of the Copom analyzed the recent performance of and the prospects for the Brazilian economy and for the international economy, under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) reached 0.79% in December, 0.19 percentage points (p.p.) above the registered in November. As a consequence, inflation in 2012 reached 5.84%, compared to 6.50% in 2011, and for the ninth consecutive year it stood within the tolerance interval established by the National Monetary Council (CMN). Market prices changed 6.56% in the year (6.63% in 2011), and regulated prices, 3.65% (6.20% in 2011). Among market prices, the prices of tradable goods increased 4.47% (4.41% in 2011), and the prices of non-tradable goods, 8.46% (8.59% in 2011). The prices of

food and beverages group, still impacted by domestic and external weather-related factors, increased by 1.03% in December and reached 9.86% in twelve months (7.19% in 2011). The prices of services rose 0.98% in December and 8.75% in twelve months (9.01% in 2011). In short, services inflation remains at high levels, and there are pressures in the food and beverages segment.

2. The average of the underlying inflation measures calculated by the BCB has moved from 0.60% in November to 0.70% in December. On its turn, on a twelve-month trailing basis, the average change of the five core inflation measures moved from 5.37% in November to 5.60% in December. The smoothed trimmed means IPCA core inflation moved from 0.49% in November to 0.56% in December, while the non-smoothed trimmed means core inflation changed from 0.61% to 0.64% in the same period. Similarly, the double weight core inflation increased from 0.62% in November to 0.67% in December. At the same time, core inflation by exclusion, which excludes ten household food and fuels items, increased from 0.63% in November to 0.76% in December, and the core inflation by exclusion of regulated prices and household food changed from 0.64% in November to 0.88% in December.

3. Inflation measured by the General Price Index (IGP-DI) increased 0.66% in December, increasing by 8.10% in 2012 (5.00% in 2011). The main component of this indicator, the Wholesale Price Index (IPA), changed 9.13% in 2012, influenced by strong increase in the agricultural sector (19.20%), which was, on its turn, impacted by supply shocks. According to the breakdown by stage of production, there were increases in the prices of raw materials (12.39%), intermediate goods (10.08%) and final goods (5.21%), according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, stood at 5.74% in 2012 (6.36% in 2011). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 7.12% in the year, partially driven by the increase in labor cost. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), increased 0.25% in November and 6.64% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.

4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br increased by 0.4% in October and in November. As a consequence, the indicator increased 0.5% between September and November, quarter-over-quarter, and 2.7% year-over-year, accumulating 1.7% in the twelve months through November. The Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated for the third consecutive month in December, considering seasonally adjusted data, although it stands above the historical average of the index. On its turn, after three consecutive highs, the Services Sector Confidence Index (ICS) decreased in December, month-on-month. At the same time, the industrial businessmen confidence continues in a gradual recovery trajectory. According to the FGV, the Industry Confidence Index (ICI) increased in December, according to the seasonally adjusted series, boosted by significant improvement in expectations. In agriculture, prognosis carried out by the IBGE indicates that grains production should grow by 9.9% in 2013.

5. Brazilian economy grew 0.6% in the third quarter, compared to the second quarter, when it had grown 0.2%, according to data seasonally adjusted and released by the IBGE. Year-over-year, GDP growth in the third quarter reached 0.9%, up from 0.5% in the second quarter. On the demand side, household consumption – greatest component of aggregate demand – continues robust and, at the margin, it increased by 0.9% in the third quarter and 3.4% relative to the same quarter of 2011 – thirty sixth consecutive expansion according to this comparison basis. Government consumption increased by 3.2% year-over-year (0.1% at the margin). On its turn, Fixed Capital Gross Formation (FCGF) retracted 5.6% relative to the third quarter of 2011 (-2.0% at the margin). The slow recovery in confidence partially explains why investments haven't reacted yet to stimuli introduced in the economy. Regarding external trade, exports expanded by 0.2% and imports retreated by 6.5%, both at the margin. In particular, exports for Argentina, European Union and Japan were negatively impacted by the fragility of economic activity in these regions.

6. The indicators of Credit Conditions, constructed by the Central Bank based on quarterly consultation held with representative institutions of each credit market segment, evidence, for the first quarter of 2013, compared to

the last quarter of 2012, moderation in the pace of concessions approval to corporations, which is partially explained by seasonal factors. Regarding credit to individuals, the analysis suggests growth scenario for both consumer and housing segments, boosted by demand.

7. Manufacturing activity decreased 0.6% in November, after a 0.1% increase in October, according to general industrial production data seasonally adjusted by the IBGE. Production declined in 15 of the 27 branches of activity. Thus, the average of the quarter ended in November was 0.3% higher than the one registered in the previous quarter. Year-over-year, industrial production decreased 1.0% in November and 2.5% in twelve months. According to data released by the National Confederation of Industry (CNI), revenues in the manufacturing industry increased 6.2% in October in real terms, compared to the same month of the previous year, and the number of worked hours increased 1.9%. In addition, real revenue increased 3.4% between January and October, compared to the same period of the previous year, and the number of worked hours decreased 1.6%, according to the same comparison basis.

8. Among the industry use categories, according to data seasonally adjusted by the IBGE and considering the month-on-month growth in November, the production of durable consumer goods changed -1.0%; the production of semi-durable and nondurable consumer goods, -0.1%; the production of capital goods, -1.1%; and the production of intermediate goods, -1.0%. Year-over-year, the production of durable consumer goods changed 6.0%; the production of semi-durable and nondurable consumer goods, 0.4%; the production of capital goods, -10.3%; and the production of intermediate goods, -1.0%. Regarding the twelve-month accumulated growth through November, the production of durable consumer goods changed -3.5%; the production of semi-durable and nondurable consumer goods, -0.3%; the production of capital goods, -10.7%; and the production of intermediate goods, -1.5%.

9. The unemployment rate for the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, was estimated in 4.9% in November (5.2% in November 2011). According to BCB seasonally adjusted data, the unemployment rate changed from 5.4% in October to 5.3% in November. The significant reduction in the Working Age Population (WAP) growth rate during the last years has contributed to the process of reduction in the unemployment rates. On the other hand, the employment level – which represents the proportion of employed people compared to those in working age – reached a new record high for the series in November (55.3%). Still according to the PME, the average real income increased 5.3% in November, year-over- year. On its turn, real payroll, considering the average income of the employed population in the six metropolitan areas, increased 8.3% compared to November 2011. Data released by the Ministry of Labor and Employment (MTE) show that, in November, 46.1 thousand formal jobs were created (42.7 thousand in November 2011). Commerce and services sectors registered positive balance, while the change was negative in the six remaining sectors. In short, the set of available data indicates that the labor market remains robust, although there are signs of moderation at the margin.

10. According to the retail monthly survey (PMC) from IBGE, retail sales volume increased 8.4% in November, year-over-year, and broad retail sales increased 7.2%, according to the same comparison basis. Month-on-month, retail sales expanded by 0.3% in November, according to the seasonally adjusted series, and broad retail sales fell by -1.2% - partially due to the reversion of gains, which happened in October, and which stemmed from fiscal stimuli to the vehicles segment. As a consequence, the broad retail sales growth accumulated in the twelve months through November stood at 8.0%, with expansion in all ten sectors surveyed, with highlights for office, computer and communication material and equipment (14.8%) and furniture and appliances (13.0%). The Trade Confidence Index (ICOM), measured by the FGV, decreased in December, after increasing for four consecutive months, with improvement in the perception of current situation and retreat in expectations regarding the future. For the upcoming months, the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by moderate credit expansion.

11. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, retreated in December to 84.8% (84.1% in December 2011). According to the seasonally adjusted series calculated by the FGV, the Nuci stood at 84.1% in December (83.4% in December 2011). Over the last months, capacity utilization intensified in the consumer goods sector, and reached 87.0%

in December (83.7% in December 2011). In the sectors of capital goods, intermediate goods and construction inputs, the levels stood at 82.0%, 84.9% and 88.4%, respectively.

12. The trade balance ended 2012 with a US$19.4 billion surplus (US$29.8 billion in 2011). This result stemmed from US$242.6 billion in exports and US$233.1 billion in imports, associated to changes of -5.3% and -1.4%, respectively, compared to the previous year. On its turn, the current account deficit accumulated in twelve months reached US$51.8 billion in November, equivalent to 2.3% of GDP, while foreign direct investment totaled US$66.5 billion in the twelve months through November, equivalent to 2.9% of GDP, surpassing the need for external financing.

13. Global economy continues to face a period of uncertainty, with prospects of low growth for a long period in important economies, despite the recent accommodation in the volatility and risk aversion indicators. High unemployment rates for a long period coupled with the implementation of fiscal adjustments, the limited space for countercyclical actions and political uncertainties are translated into projections of low growth for mature economies, mainly in Europe. The compound leading indicator released by the Organization for Economic Cooperation and Development (OECD), related to November, continued to indicate stabilization in the growth of the United States (US) and China, as well as weak activity level in the Euro Area and in Japan. The disaggregated indicators of the Purchasing Managers Index (PMI), related to December, suggest some marginal improvement, especially in the US and in the main emerging economies, even with still moderate activity in the manufacturing sector. Regarding monetary policy, advanced economies persist with strongly accommodative stances. Inflation has remained at moderate levels in the US and in the Euro Area, and negative in Japan. Unconventional policy actions, announced in mature economies, tend to increase liquidity in their markets and contribute to the decrease in the likelihood of extreme events. In emerging economies, in general, the monetary policy bias is expansionist, which combines, in some cases, with other countercyclical policies.

14. The price of Brent oil barrel has remained above US$110, since the previous meeting. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which is also a reflex of the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. As measured by the Commodity Research Bureau (CRB), since the last Copom meeting, international prices of metallic commodities have strongly increased (5.7%), while those of agricultural commodities have retreated 3.2%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), accumulates a fall of 0.7% in twelve months until December 2012.

Assessment of Inflation Trends

15. The identified shocks, and their impacts, were reassessed according to the new set of available information. The scenario considered in the simulations was based on the following assumptions:
a) the projected adjustment for gasoline in 2013 is around 5%;
b) the projected adjustment for electricity points to a decrease of nearly 11% (this estimate considers the direct impacts of the sector charges reductions recently announced, as well as ordinary tariff revisions planned for this year);
c) fixed telephone tariff and bottled gas prices are projected to remain stable, for 2013;
d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2013, was increased to 3.0%, up from 2.4%, considered at the November Copom meeting; and
e) the projected adjustment for the set of regulated prices accumulated in 2014 was maintained at 4.5%, the same value considered at the November Copom meeting. This projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).

16. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates 41 bps and 21 bps spreads for the fourth quarter of 2013 and 2014, respectively.

17. Regarding fiscal policy, projections assume the achievement in 2013 of the public sector primary surplus of R$ 155.9 billion, according to parameters set out in the Budget Guidelines Law (LDO) – 2013. For 2014, as a working hypothesis, a primary surplus of around 3.10% of GDP is accepted.

18. The set of projections incorporates the estimated effects of the reduction in the neutral interest rate identified over the last years.

19. Since the last Copom meeting, the median of the expectations compiled by the BCB's Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA increased from 5.40% to 5.53%. For 2014, the median of inflation expectations remained stable at 5.50%. Specifically for banks, asset managers and other institutions (real sector companies, brokers, consultancies and others), the median of expectations for the 2013 IPCA changed from 5.34%, 5.46% and 5.39% to 5.52%, 5.54% and 5.56%, respectively. For 2014, the medians are 5.50%, 5.50% and 5.30%, in the same order.

20. The baseline scenario assumes the maintenance of the exchange rate at R$2.05/US$1.00 and the Selic rate at 7.25% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation increased relative to the figure considered at the November Copom meeting and stands above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin in the period immediately prior to the Copom meeting, 2013 IPCA inflation forecast also increased and stands above the midpoint inflation target. For 2014, in both scenarios, the inflation forecast is slightly above the midpoint inflation target.

Monetary Policy Decision

21. The Copom evaluates that monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Copom also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly price setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other macroeconomic policy actions may influence the prices trajectory, it reaffirms its view that it is particularly under the responsibility of the monetary policy to remain especially vigilant, to guarantee that pressures detected in shorter horizons do not spread to longer horizons.

22. International evidence, ratified by the Brazilian experience, indicates that high inflation rates lead to the increase in risk premia, both for private and public funding, and to the shortening of planning horizons, both for households and companies. Consequently, high inflation rates reduce investments and economic growth potential, in addition to presenting regressive effects on income distribution. In other words, high inflation rates do not originate any lasting results for economic and employment growth; on the contrary, they create permanent damage to these variables in the medium and long terms. Therefore, the strategy adopted by the Copom aims to ensure the convergence of inflation towards the targets path, which requires that possible deviations from the target path be promptly corrected. Such strategy takes into account the time lags in the transmission mechanism and is the most adequate to deal with the uncertainty inherent to the process of monetary policy formulation and implementation.

23. The Copom understands that there were significant structural changes in the Brazilian economy, which determined retreat in interest rates in general and, in particular, in the neutral rate. Among the factors that support this view, it bears highlighting the reduction in risk premia, a direct consequence of the accomplishment of the inflation target for the ninth consecutive year, of the macroeconomic stability and of institutional improvements. Moreover, the process of interest rates reduction was favored by changes in the structure of financial and capital markets, by the credit market deepening, as well as by the generation of

primary surpluses consistent with the maintenance of the decreasing trend for the public debt-to-GDP ratio. For the Committee, all these transformations are characterized by high degree of persistence - although, due to the economic cycles themselves, specific and temporary reversions may occur - and contribute for the Brazilian economy's current solid indicators of solvency and liquidity.

24. The Copom also evaluates that the increase in the supply of external savings and the reduction of its funding cost have contributed to the reduction of the domestic interest rates, including the neutral rate, which, according to the Committee's assessment, are largely permanent developments.

25. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from the ongoing deleveraging process in the major economic blocks. In this context, despite identifying decrease in the probability of occurrence of extreme events in international financial markets, the Copom considers that the external environment remains complex. The Committee evaluates that, in general, the prospects for moderate global activity remained unchanged. In mature economies, the space to use monetary policy seems to be limited and the fiscal restraint scenario prevails in this and in the next years. In important emerging economies, however, the activity pace has intensified, supported by the resilience of domestic demand. The Committee also highlights evidences of price pressures in metal commodity markets, to some extent, offset by moderation in segments of agricultural and energy commodities.

26. The Copom evaluates that the pace of recovery in domestic economic activity - less intense than previously anticipated - is essentially due to limitations regarding the supply side. Given its nature, therefore, these difficulties cannot be addressed by monetary policy actions, which are, *par excellence*, demand control tools. By the way, despite the weakness of investment, which reflects, largely, the increased uncertainties and the slow recovery of confidence, domestic demand will continue to be driven by the lagged effects of monetary policy actions recently implemented, as well as by the moderate expansion of credit supply, both for individuals and corporate. The Copom believes, additionally, that domestic activity will continue to be favored by public transfers, as well as by the labor market vigor, which is reflected in historically low unemployment rates and in wage growth, despite some accommodation at the margin.

27. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. It also notes that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, in addition to contributing to reduce the mismatch between supply and demand growth rates, will strengthen the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.

28. The Copom highlights that its main scenario also considers moderate expansion in the credit market. Still about the credit market, the Committee considers opportune initiatives with the aim of moderating the concessions of subsidies through credit operations.

29. The Copom evaluates that the greater dispersion of consumer price increases recently observed and the reversal of tax exemptions, combined with seasonal pressures and pressures localized in the transportation segment, tend to contribute that inflation shows resistance in the short term.

30. The Copom emphasizes that its main scenario includes more intense domestic activity pace in this year and limited risks, but which have recently intensified, regarding the mismatch, in specific segments, between supply and demand growth rates. The Committee highlights the narrow idleness margin in the labor market, despite the signs of moderation in this market, and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation dynamics. On the other hand, the Copom notes that the level of installed capacity utilization is below the long-term trend, in other words, it is contributing to the opening of the output gap and to contain prices pressures. Furthermore, the Copom emphasizes that the outlook for the upcoming semesters indicates moderation in the prices dynamics of some real and financial assets.

31. In short, the Copom highlights that the balance of risks for inflation worsened in the short term and that the recovery in domestic activity was less intense than expected, as well as that some complexity still involves the international scenario.

32. In this context, the Copom unanimously decided to maintain the Selic rate at 7.25% p.a., without bias.

33. The following members of the Committee voted for this decision: Alexandre Antonio Tombini (Governor), Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.

34. The Copom evaluates that domestic demand tends to show robustness, especially household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the effects of monetary policy actions recently implemented, which are, in short, lagged and cumulative. For the Committee, these effects, the programs of public services concession, the inventories at adjusted levels and the gradual recovery of businessmen's confidence create prospects for the investment resumption. The Committee considers that recent initiatives indicate the balance of the public sector in expansionary position. On the other hand, the Committee notes that the fragile international scenario represents an aggregate demand restraining factor restraining aggregate demand. These elements and the developments in the quasi fiscal field and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.

35. In this context, the Copom believes that the stability of monetary conditions for a sufficiently long period of time is the most adequate strategy to ensure the convergence of inflation toward the target.

36. At the end of the meeting, it was announced that the Committee will reconvene on March 5th, 2013, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 22,665, of June 27th, 2012.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

37. The IPCA rose 0.79% in December, up from 0.60% in November, totaling 5.84% in 2012, compared to 5.53% in the twelve months through November and 6.50% in 2011, according to data released by the IBGE. The monthly result reflected acceleration in market prices and deceleration in regulated prices. Regarding market prices, which increased 0.94% in December, compared to 0.62% in November, the movement was influenced by the behavior in the prices of tradable goods, which increased from 0.67% to 0.86%, while the prices of non-tradable goods increased from 0.57% to 1.00%, with services recording 0.98% in December, up from 0.82% in November. Regulated prices rose 0.33% in December, down from 0.54% in November. The monthly IPCA change mainly stemmed from the increases in the prices of food and beverages, and personal expenses, with respective contributions of 0.25 p.p. and 0.16 p.p.. The diffusion index stood at 70.68% in December, up from 62.72% in November.

38. On a twelve-month basis through December, market prices accelerated in relation to November, from 6.23% to 6.56%, and regulated prices accelerated, from 3.50% to 3.65%. The evolution of market prices reflected the effect of the acceleration in the prices of tradable goods, from 4.10% to 4.47%, and in the prices of the non-tradable goods, from 8.17% to 8.46%. The prices of the services segment increased 8.75% in the last twelve months through December, compared to 8.24% and 7.99%, in the corresponding periods through November and October, respectively.

39. The IGP-DI changed 0.66% in December, after increasing 0.25% in November, according to the FGV, reflecting the acceleration in the IPA and IPC and deceleration in the INCC. The index accumulated an increase of 8.10% in 2012, up from 5.00% in 2011.

40. The IPA-DI changed 0.74% in the month, compared to 0.16% in November, totaling 9.13% in 2012, compared to 4.12% in 2011. The prices of agricultural and livestock products increased 1.27% in December, up from 0.48% in the previous month, totaling 19.20% in the year, compared to 3.15% in 2011. The prices of industrial products increased 0.53% in the month, up from 0.04% in November, totaling 5.54% in 2012, compared to 4.46% in the previous year. The monthly performance of the prices of agricultural and livestock products evidenced, mainly, the changes registered in the prices of poultry (8.10%), corn (3.47%) and beans (10.18%), with respective contributions of 0.17 p.p., 0.10 p.p. and 0.08 p.p. for the IPA-DI result. Among the prices of industrial products, the main influences were exerted by meats, meat and fish products, chemical products and oils and fats, with respective elevations of 2.08%, 0.65% and 1.34%, and individual respective contributions of 0.07 p.p., 0.06 p.p. and 0.05 p.p. to the monthly index.

41. The IPC-DI increased 0.66% in December, compared to 0.45% in November, totaling 5.74% in 2012, down from 6.36% in the previous year. The IPC-DI acceleration in December was mainly influenced by the higher increases in the prices of food group, whose contribution to the monthly index increased from 0.13 p.p. in November to 0.30 p.p. in December. The INCC-DI changed 0.16% in December, down from 0.33% in the previous month, as a result of deceleration in the prices of materials, equipment and services (from 0.25% to 0.19%) and in the costs of labor force (from 0.41% to 0.13%). The INCC-DI accumulated increases of 7.12% in the year, down from 7.49% in the previous year.

42. The IPP/IT increased 0.25% in November, after increasing 0.23% in October, accumulating 6.82% increase in the year, compared to 2.78% in the same period of last year, and expanding by 6.64% in the twelve months through November, compared to 6.39% in the same period through October. The monthly result of the IPP/IT was mainly influenced by the increase in the prices related to the industries of food, coke, oil byproducts and bio-fuels, and machinery and equipment industry, which contributed 0.12 p.p., 0.07 p.p. and 0.06 p.p., respectively, partially offset by the contributions concerning the industries of soaps, detergents and perfumery, and machinery, electric appliances and equipment, both with identical contributions of -0.03 p.p.. The index change in the twelve months through November reflected, mainly, the contribution from the industries of food products, of 2.62 p.p..

43. The Commodities Index Brazil (IC-Br) increased 1.47% in December, after increasing by 0.68% in November, reflecting changes of 0.73%, 7.25% and -1.13% related to the segments of agriculture and livestock, metal and energy, respectively. In 2012, the index accumulates an increase of 10.51%, with expansions of 8.84%, 19.75% and 9.44%, in the respective sub-indexes.

Economic Activity

44. The Economic Activity Index of the BCB (IBC-Br) increased 0.40% in November, month-on-month, considering seasonally adjusted data. In the quarter ended in November, the index increased 0.52%, over the quarter ended in August, when it had increased 1.48%, according to the same comparison basis. Considering observed data, the IBC-Br increased 2.76% in November, year-over-year, compared to the 4.96% expansion recorded in October, according to the same comparison basis. The index increased 1.68% in the year and 1.66% in the twelve months through November.

45. Broad retail sales, which include vehicles and construction inputs, decreased 1.2% in November, month-on-month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after increase of 5% in October and decrease of 7% in September. With this result, broad retail sales fell by 2.9% in the quarter ended in November, relative to the quarter ended in August, when it had increased by 6.4%. By segment, five out of the ten surveyed segments decreased, with highlights for the fall of office, computer and communication material and equipment (-11.4%) and vehicles, motorcycles, parts and pieces (-5%), in contrast to the increases in other articles of domestic and personal use (4.2%) and textiles, clothing and footwear (2.1%). In the year, broad retail sales increased 8.4%. Retail sales volume increased 0.3% in November, month-on-month seasonally adjusted, after increases of 0.8% in October and 0.3% in September, according to the same comparison basis. There were expansions of 1.5% quarter-over-quarter, considering seasonally adjusted data, 8.9% in the year and 8.6% in twelve months.

46. Considering observed data, broad retail sales increased 7.2% in November, year-over-year, with expansion in nine segments, with highlights for the increases in other articles of domestic and personal use (18.2%); pharmaceutical, medical, orthopedic, perfumery and cosmetics articles (9.6%); books, newspapers, magazines and stationary (8.8%); hypermarkets, supermarkets and food products (8.3%); and furniture and household appliances (8.3%); in contrast to the contraction of 1.9% in office, computer and communication material and equipment. In the twelve months through November, broad retail sales increased 8%, mainly driven by increases in the sales of office, computer and communication material and equipment (14.8%), furniture and household appliances (13%); and pharmaceutical, medical, orthopedic, perfumery and cosmetics articles (10.6%).

47. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 359.3 thousand units in December, expanding by 11.7%, month-on-month, after decreasing by 1.1% in November and by 2.3% in October, according to the Automotive Vehicles Distribution National Federation (Fenabrave) data, seasonally adjusted by the BCB. In the quarter ended in December, sales retreated by 8%, compared to the 15.1% increase in the previous quarter. In the year, automobile vehicles sales increased 3.5%, as a consequence of the increase in the sales of cars (6.2%) and light commercial vehicles (0.3%); in contrast, the sales of trucks and buses fell by 20% and 15.3%, respectively.

48. Capital goods imports quantum index, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, increased 10.7% in December, month-on-month. According to the observed data, the index increased 4.1% year-over-year, and 0.2% in 2012, compared to 2011.

49. Capital goods production decreased 1.1% in November, accumulating a 1.6% decrease in the quarter, compared to the one ended in August, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The performance of the category in the month was influenced by the decrease in the production of equipments of mixed use (-5.7%), equipment for electrical energy (-4.4%), and agricultural capital goods (-3%) and; partially offset by the expansion of other segments, with highlights for the increase of 46.7% in agricultural pieces.

50. Construction inputs production decreased by 1% in November, accumulating a decrease of 0.7% in the quarter, quarter-over-quarter, considering seasonally adjusted data. Compared to the same periods of 2011, the segment production decreased 0.1% in the month, and increased 1.9% in the year and in twelve months.

51. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R$142.7 billion in the twelve months through November, 7.4% above the one registered in the same period of 2011, with growth of commerce and services (36%), industry (14%), and agriculture and livestock sector (10%), in contrast to the retreat of 12% in those disbursements directed to the infrastructure sector. In the period, the industry absorbed 34% of the total resource, followed by infrastructure (33%), commerce and services (25%) and agriculture and livestock sector (8%).

52. Industrial production decreased 0.6% in November, according to IBGE seasonally adjusted data, after a 0.1% increase (revised) in October, reflecting retractions of 6.7% in the mining industry and 0.5% in the manufacturing industry. Retractions were recorded in all use categories: capital goods (-1.1%), intermediate and durable consumer goods (-1%) and semi and non-durable consumer goods (-0.1%). Fifteen out of the 26 manufacturing industry activities surveyed decreased in the month, with highlights for the segments of medical-hospital instrumentation equipment (-10.7%), tobacco (-8.3%), and electronic material and communication equipment (-7%). On the other hand, clothing and beverages presented the sharpest monthly increases, of 7.4% and 3.4%, respectively. The industrial production increased 0.3% in the quarter ended in November, over the quarter ended in August, when it had increased by 0.2%, according to the same comparison basis, reflecting expansion of 1.5% in the mining industry and of 0.3% in the manufacturing industry. The quarterly evolution was favored by the performance of medical-hospital instrumentation equipment (12.1%) and pharmaceutical products (4.5%); in contrast, office machines and computer equipment and perfumery and cleaning products recorded the sharpest decreases, 8.2% and 6.3%, respectively, in the analyzed period. Considering observed data, industrial production presented decreases of 1.0% in the month,

year-over-year, 2.6% in the year and of 2.5% in twelve months, mainly reflecting the decreases of 10.3%, 11.6% and 10.7%, in order, of the capital goods segment.

53. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.1% in December, a 0.1 p.p. increase month-on-month, according to FGV seasonally adjusted data. Expansions were registered for non-durable consumer goods (1.3 p.p.) and capital goods (1 p.p.). On the other hand, decreases were recorded for durable consumer goods (-1.2 p.p.), construction inputs (-0.9 p.p.) and intermediate goods (-0.2 p.p.). Considering the observed series, the Nuci increased 0.7 p.p., year-over-year, reaching 84.8%, as a result of the increases in non-durable consumer goods (3.6 p.p.), in durable consumer goods (2.9 p.p.) and in intermediate goods (0.7 p.p.), as opposed to the decrease in the indicators related to capital goods (0.9 p.p.) and construction inputs (0.1 p.p.).

54. Vehicles output reached 259.4 thousand units in December, representing increases of 1.4% month-on-month and of 1.3% in the quarter ended in December, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. Considering observed data, vehicles output increased 0.1% year-over-year, and decreased 1.9% in the year.

55. According to data released by Anfavea, national vehicle licensing increased 12.3% in December, month-on-month, and decreased 3.7% in the quarter ended in December, considering data seasonally adjusted by the BCB. Regarding observed data, there were increases of 11.6% year-over-year and 8.3% in the year. Automobile exports totaled 41.2 thousand units, representing retractions of 19.3% year-over-year, and 20.1% in the year. According to the series seasonally adjusted by the BCB, exports increased 19.4% in the month, month-on-month, and decreased 0.3% in the quarter ended in December, as compared to the quarter ended in September.

56. The LSPA survey carried out by the IBGE regarding December projected 162.1 million tons for the 2012 national harvest of grains, representing an increase of 1.2% year-over-year and a decrease of 0.3% over the November crop forecast. In comparison to the previous estimate, the new prognosis evidenced, in particular, the less favorable prospect for the harvest of wheat, with a 9.8% decrease. Regarding the 2011 harvest of grains, the result reflects a 27% expected increase in the harvest of corn, due to the expected increase of 72.9% for the second harvest, as opposed to the declines projected for the harvests of wheat (-23.3%), beans (-19.3%), rice (-15.4%) and soybeans (-12.3%). The third prognosis of IBGE for the 2013 harvest estimated the grain production at 178 million tons, 9.9% higher than the projection for 2012, especially favored by the expected increase of 25.3% in the production of soybeans. Regarding the other main crops, respective increases for the crops of beans, wheat and rice are projected at 23.7%, 11.5% and 4.6% and a 2.3% decrease is expected for the crop of corn.

Surveys and Expectations

57. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), decreased 1.1% in December, month-over-month, reaching 118.7 points, reflecting decreases of 2.3% in the Current Situation Index (ISA) and 0.3% in the Expectations Index (IE). According to observed data, the ICC decreased 0.6%, year-over-year, due to changes of -5% in the ISA and of 2.6% in the IE.

58. The ICS, calculated by the Services Survey carried out by the FGV, decreased 1.7% in December, month-on-month seasonally adjusted, moving from 125.4 to 123.3 points, as a result of the decreases of 1.2% in the Current Situation Index (ISA-S) and 2% in the Expectations Index (IE). The ICS decreased 5%, year-over-year, as a result of the 7.8% decrease in the ISA-S and of 2.5% in the IE.

59. The Commerce Confidence Index (ICOM), measured by the Commerce Survey from the FGV, reached 125.4 points in December, decreasing 1.3% year-over-year. The result reflected decreases of 1.7% in the Current Situation Index (ISA-COM) and of 0.9% in the Expectations Index (IE-COM). In the quarter ended in

December, the ICOM increased 1.5% year-over-year, due to the expansions of 2.4% in the ISA-COM and 0.8% in the IE-COM.

60. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), increased 1.1% in December, month-on-month, to 106.4 points, driven by the increases of 0.3% in the Current Situation Index (ISA) and of 1.9% in the Expectations Index (IE). The ICI increased 4.5% year-over-year, as a result of the increases of 4% in the ISA and of 5% in the IE.

61. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 121.6 points in December, decreasing 3.5% year-over-year. The result reflected retreats of 3.5% in both the Current Situation Index (ISA-ICST) and in the Expectations Index (IE-ICST). In the quarter ended in December, the ICST decreased 3.3%, year-over-year, due to the retreats of 3% in the ISA-ICST and 3.5% in the IE-ICST.

Labor Market

62. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 46.1 thousand formal jobs were created in November, of which 109.6 thousand jobs were created in the retail sector, 41.5 thousand jobs in the services sector, opposed to the net close of 41.6 thousand jobs in the civil construction, 32.7 thousand jobs in the agriculture and livestock sector and 26.1 thousand jobs in the manufacturing industry. In the year, 1.4 million jobs were created and, in twelve months, 957 thousand, compared to 2 million and 1.6 million, respectively, in the same periods of 2011. Month-on-month, formal job creation expanded by 0.2%, considering data seasonally adjusted by the BCB.

63. According to the IBGE employment survey (PME), conducted in the six major metropolitan areas, the unemployment rate reached 4.9% in November, with decreases of 0.4 p.p. month-on-month and of 0.3 p.p. year-over-year. The monthly result reflected an increase of 0.4% in the employed population and stability in the Economically Active Population (PEA). Considering seasonally adjusted data by the BCB, unemployment reached 5.3% in November, down from 5.4% in the previous month. According to the same survey, the average real income usually earned by workers grew 0.8% month-on-month, 5.3% year-over-year, and 4.2% in the year. Real payroll expanded by 1.2%, 8.3% and 6.3%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

64. Outstanding credit in the financial system, including earmarked and non-earmarked operations, reached R$2,304 billion in November, increasing by 1.5% in the month, 13.5% in the year and 16.1% in twelve months, equivalent to 52.6% of GDP. Non-earmarked credit operations, which represented 63.1% of the total of the financial system, increased 1.2% in the month, 11.5% in the year and 13.8% in twelve months, reflecting respective changes of 0.9%, 10.3% and 11.5% for credit operations to individuals, and 1.4%, 12.8% and 16.2% for credit operations to corporate, in the same order. Earmarked credit operations increased, respectively, 2.1%, 17.1% and 20.2% according to the same comparison bases, highlighting the expansions of 2.3%, 33.9% and 37.1%, respectively, in housing credit.

65. The average annual interest rate on reference credit operations reached 28.9% in November, decreasing 0.5 p.p. in the month and 9.6 p.p. in twelve months. The average annual rate on credit for individuals and corporate reached, respectively, 34.8% and 21.7%, registering respective decreases of 0.6 p.p. and 0.4 p.p., month-on-month, and 9.9 p.p. and 8.1 p.p., year-over-year.

66. The average tenure on reference credit operations increased two days in November, reaching 524 days. The tenure related to individuals increased five days and that related to the corporate segment decreased two days, reaching 626 and 431 days, respectively.

67. The delinquency rate in the financial system (non-earmarked loans used as reference for interest rates, in arrears for more than ninety days) declined from 5.9% in October to 5.8% in November, representing an increase of 0.2 p.p. year-over–year. The indicator for the operations with individuals reached 7.8%, compared to 7.9% in the previous month, increasing 0.5 p.p. in twelve months. The delinquency rate for credit operations to the corporate segment remained stable at 4.1% in November, increasing 0.1 p.p. in twelve months.

External Environment

68. Since the last Copom meeting, the global activity continues at a moderate pace and heterogeneous development, with expansion in the US and China and contractions in the Euro Area and Japan. In the US, the annualized quarterly change in GDP in the third quarter was revised from 2.7% to 3.1%, reflecting, in particular, positive contributions stemming from personal consumption expenditures and consumption of the federal government, housing investment and private inventories growth. The unemployment rate remains at a high level, 7.8% in December, unchanged relative to November, with the generation of non-farm jobs reaching 161,000 and 155,000 in the months of November and December, with upward revisions for previous months. The housing market continues to signal recovery, with housing prices, sales of existing homes and confidence in construction companies at high levels. In the Euro Area, the most recent indicators of industrial production, consumption, economic sentiment and unemployment rate reinforce the prospects of continued contraction of economic activity in the region. In Japan, reflecting the weakness of the export sector, industrial production contracted 1.7% month-on-month and 5.8% year-over-year, and the December manufacturing PMI dropped to 45, the lowest level in eighteen months. In China, the average growth rates of the October/November period compared to the third quarter showed expansion in industrial production and in the investments in fixed asset and stability in retail sales.

69. Financial markets performed well since the last Copom meeting, influenced by the implementation of the repurchase program of sovereign bonds of Greece and by the release of a new tranche of the aid program to that country, as well as by the agreement relative to the fiscal cliff on the new year´s eve in the US. In this scenario, the perception of risk dropped, the major stock exchanges reported significant increases and the annual yields of the ten-year bonds from the US, Germany, UK and Japan increased. In the currency market, the dollar depreciated against the major currencies, except for the yen. The international prices of commodities had different trajectories in the period, with the metals rising, with highlights for iron ore, while regarding agriculture, significant decreases were observed in grain prices (corn, wheat and soybeans).

70. In November, the annual change for the global CPI, regarding data from the International Financial Statistics (IFS), from the IMF, decreased to 3.2%, down from 3.4% in October, influenced by the reduction to 1.6% from 1.9% in advanced economies - after three consecutive months of increases - and to 5.6% from 5.7%, in emerging and developing countries. Among the emerging economies, it is notable that the annual change in the CPI in China, after having retreated to 1.7% in October, the lowest rate since January 2010, rose to 2.5% in December.

71. In developed economies, official interest rates were maintained at the record low levels in the US, between 0 and 0.25%; in the Euro Area, 0.75%; in Japan, between 0 and 0.1% and in the UK, 0.5%. In the other economies, the rates also remained at the previous levels, except for Australia, Hungary, Poland, Sweden, Turkey and Israel, which reduced their basic rates, and Uruguay, which increased. It should be noted that, on December 12th, the Federal Reserve redefined its communiqué on the time horizon of the Fed Funds at exceptionally low levels, stating that it will be kept that way at least until the unemployment rate is above 6.5%, the projection of inflation between one and two years does not exceed 2.5% and long term inflation expectations remain well anchored. In Japan, the BoJ expanded again by ¥10 trillion, to approximately ¥101 trillion, its assets purchase program and defined the operational limits of the Stimulating Bank Lending Facility. The provision of new funding for these two programs and for the Loan Support Program, scheduled for the next 15 months, exceeds ¥50 trillion.

Foreign Trade and International Reserves

72. The Brazilian trade surplus reached US$2.3 billion in December, as a result of US$19.7 billion in exports and US$17.5 billion in imports. The accumulated balance at the end of the year totaled US$19.4 billion, down from US$29.8 billion in 2011, reflecting decreases of 5.3% in exports and 1.4% in imports, by the criterion of daily average, which reached US$242.6 billion and $ 223.1 billion, respectively, in 2012. The total external trade decreased by 3.4% in 2012, totaling US$465.7 billion, down from US$482.3 billion in the previous year.

73. International reserves according to the liquidity concept, which covers repurchase lines, totaled US$378.6 billion in December, with increases of US$54 million in the month and US$26.6 billion compared to the end of 2011. According to the cash concept, international reserves totaled US$373.1 billion, decreasing US$5.4 billion month on month and increasing US$21.1 billion, year-over-year. In the month, there was no intervention in the spot market and sales of US$5.5 billion in operations of repurchase lines by the BCB on the domestic exchange market.

Money Market and Open Market Operations

74. After the November Copom meeting, the domestic yield curve declined throughout its length. The fall in the rates was influenced, domestically, by the release of economic activity data below market estimates, while on the international scenario, uncertainties persisted about the final solution for the US fiscal issue. Between November 26th 2012 and January 14th 2013, one- and three-month-interest rates fell by 0.15 p.p. and 0.13 p.p., respectively. The rates for one-, two- and three-years maturities declined 0.17 p.p., 0.16 p.p. and 0.19 p.p., respectively. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, decreased from 1.81% on November 26th, 2012 to 1.47% on January 14th 2013, mainly due to rising inflation expectations.

75. Between November 27th 2012 and January 14th 2013, the BCB carried out traditional FX swap auctions maturing in January and February 2013, in an amount equivalent to US$3.9 billion. On January 14th, the net balance of BCB swap operations was US$1.9 billion, short in FX change.

76. In its open market operations, the BCB carried out weekly, between November 27th 2012 and January 14th 2013 repurchase agreements with maturities of three and six months, borrowing in the amount of R$54.7 billion and R$117.4 billion, respectively. The average daily balance of the long-term operations increased from R$180.1 billion between October 9th and November 26th, to R$265.2 billion, between November 27th 2012 and January 14th 2013. In the same period, the BCB also borrowed money through short term repo operations with tenure of thirty-three working days, reducing the average daily balance of short-term borrowing operations to R$260.7 billion. The BCB also conducted very short-term operations, in 27 opportunities as a borrower and 5 as a lender of resources, and carried out leveling operations, at the end of the day, with tenures of one and two working days. The average daily balance of these operations totaled R$61.8 billion in the period, borrowing. The average daily balance of the total outstanding of repurchase agreements of the BCB decreased from R$589.0 billion, between October 9th and November 26th 2012, to R$587.7 billion, between November 27th 2012 and January 14th 2013. Considering the operations for the most recent period, the total outstanding of repurchase agreements increased from R$577.8 billion on November 26th 2012 to R$652.9 billion on January 14th, 2013. The main factor that contributed to the expansion of liquidity in the period was a net redemption of securities by the National Treasury.

77. Between November 27th 2012 and January 14th 2013, the National Treasury issuance regarding the traditional auctions totaled R$40.9 billion. The sale of fixed-rate securities reached R$28.8 billion, of which R$24.7 billion in LTNs maturing in 2013, 2014, 2015 and 2016, and R$4.1 billion in NTN-Fs maturing in 2018, 2019 and 2023. The sales of LFTs totaled R$3.6 billion, with the issuance of securities maturing in 2018. In auctions of NTN-Bs, securities maturing in 2016, 2018, 2022, 2030, 2040 and 2050 were sold, totaling R$8.5 billion.

78. In the period, the National Treasury carried out a public offering of LTNs maturing in April and October 2013, with payment upon delivery of LTNs and NTN-Fs maturing in January 2013, totaling R$2.9 billion. The Treasury also carried out a public offering of NTN-Bs maturing in 2016, 2018, 2022, 2030, 2040 and 2050, accepting as payment other securities issued by the National Treasury, totaling R$18.1 billion.